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INTERNATIONAL OIL: The Arab oil producers' decision on December 25 to replace the scheduled 5-percent cutback in output for January with a 10-percent increase will mean a rise of about 2 million barrels a day (b/d) in world oil supplies over December levels. Supplies will still be some 3 million b/d below September's output and over 4 million b/d less than the output projected for January before the crisis. This latter loss, however, represents only about 11 percent of the oil in international trade. The 3 million b/d reduction in supply is roughly equal to the amount that the United States and the Netherlands would lose if the embargoes were strictly applied against them. If this were to happen, all other countries would receive oil at approximately their September import levels.

The situation is more complicated, however, because of diversions of normal oil flows. Well over 500,000 b/d of Arab and non-Arab crude apparently are being diverted to the US, and diversions to the Netherlands may amount to another 500,000 b/d. As the Arabs increase production, the amount of oil diverted will probably increase. Despite the embargo, the US probably will continue to receive at least a share of available oil proportionate to its pre-crisis imports. This means that the US, which typically imports only about 36 percent of its oil, compared with Europe's 97 percent and Japan's 100 percent, will lose relatively little of its total supply, perhaps no more than 5 percent. As for Europe and Japan, although very serious economic dislocations next spring are now unlikely, economic growth rates will be substantially below pre-October projections.

The Persian Gulf members of OPEC, meeting in Tehran on December 23, raised prices \$4 a barrel. These hikes--when matched by other OPEC producers--will double the 1974 world oil bill to about \$100

billion. This estimate, however, presumes little or no growth in consumption by major oil-importing countries over 1973 figures because of depressed economic growth rates, conservation measures, and higher prices. If these conditions do not pertain, the oil bill may be much higher. The additional cost resulting from the new hikes will be at least some \$10 billion for the US, \$23 billion for Western Europe, and \$8 billion for Japan.

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INTERNATIONAL MONETARY DEVELOPMENTS: The latest Arab oil actions have led to a further strengthening of the dollar. The more than doubling of Persian Gulf crude oil prices announced on December 23 has been far more influential in international money markets--because of the impact on importers' balances of payments and domestic price levels--than the Christmas announcement that Arab oil exports to Europe (excluding the Netherlands) and Japan would be increased to 85 percent of their September levels. The sharp increases in crude oil prices will have a greater adverse impact on the Japanese and European economies than on the US economy.

In Tokyo, the oil price increase and prospects for a continued payments deficit drove the dollar rate above the 300 yen level in the forward market, with dealers anticipating a further yen devaluation. The Bank of Japan held the spot rate at 280 yen through dollar sales of some \$400 million in the first three days of the week.

The dollar closed yesterday at a new post-devaluation high against the French franc in Paris, the only major exchange market open in Europe. This strength probably will be reflected in the other markets today.

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USSR-LAOS: The Soviet ambassador in Laos has predicted that the Pathet Lao will change tactics early in 1974 and agree to begin negotiations on a new coalition government.

In a meeting with the US charge on December 24, Ambassador Vdovine said he had been told by Soth Phetrasy, the senior Pathet Lao representative in Vientiane, that the Communists would soon drop their demand that neutralization of the two capitals--Vientiane and Luang Prabang--be resolved before negotiations can begin on formation of a new government. Phetrasy recently returned from consultations in Hanoi and Sam Neua and could be carrying new negotiating instructions.

The purpose of Vdovine's call, however, probably was to reassure the US that Moscow is being helpful in implementing the Lao accords. Vdovine said he would be doing everything possible to facilitate the negotiations. Earlier he had told the British ambassador that he might be going to Sam Neua to try to convince the Pathet Lao that Prime Minister Souvanna is acting in good faith.

Vdovine acknowledged that the Pathet Lao are responsible for the delay in implementing the Lao accords. He agreed that this delay probably results from a concern to insure the physical security of their leaders as well as a desire to accommodate their North Vietnamese allies, who may--for reasons of their own--be opposed to the early formation of a Lao coalition government.

Vdovine was untypically mild on the subject of the Chinese in Laos, volunteering that in his view Peking is satisfied with the agreement and is supporting Souvanna's efforts toward early formation of a new government. Vdovine's magnanimity toward the Chinese probably owes much to the recent Chinese withdrawals of about 4,000 antiaircraft artillery forces from Laos, which may have reduced Peking's overall strength there to about 25,000 troops. Chinese withdrawals have been a major Soviet goal, and Vdovine indicated he was aware of the recent departures.

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USSR: Soyuz 13 with two cosmonauts aboard was deorbited early yesterday after an eight-day mission.

According to TASS announcements, recovery operations went well and both cosmonauts are in good health.

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Neither cosmonaut had any prior experience in space.

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SOUTH KOREA: The government served notice on its domestic critics yesterday that it would not bend to demands for basic political reform, including revision of the constitution. Prime Minister Kim Chong-pil conveyed this message in a nationwide address. He appealed to opposition groups to end their increasingly vocal dissent and, instead, to initiate a quiet political dialogue with the regime. He clearly implied that continuation of the present unrest would lead to repressive government action.

Kim's statement was triggered by the recent effort of 30 prominent South Koreans to petition publicly for reform. It points up the growing frustration of the South Korean leadership--President Pak in particular--with persistent public criticism.

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Kim, who is caught in the middle, spoke out in the hope of avoiding a head-on confrontation between an unyielding Pak and his critics--Christians, students, and intellectuals--who are resolved to secure major political concessions at the expense of the President's authority. Kim hopes that his appeal will help channel existing dissent into more acceptable paths, permitting the government to avoid the use of force. To strengthen his case with the public, Kim devoted a large portion of his speech to pointing out that continued instability in South Korea will benefit the North Koreans.

The Prime Minister's remarks are not likely to ease the situation. The government may be prepared to make some new conciliatory gestures, but if the present pattern of dissent continues, it may easily lead to a serious confrontation in the next few months. At a minimum, continued unrest could place Prime Minister Kim's political future in jeopardy.

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FOR THE RECORD*

Cambodia: Prime Minister Long Boret's new cabinet--announced in Phnom Penh on Wednesday--holds out some hope for improved performance, according to an initial assessment by the US Embassy. The 16-man cabinet is dominated by President Lon Nol's Socio-Republican Party, but Sirik Matak's Republican Party, the "independents," and the military are also represented. At their first meeting on December 27, the new ministers will begin grappling with such sticky problems as the teachers' strike, a lagging conscription drive, and general economic malaise.

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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